



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 09 2005

The Honorable Tom Harkin
United States Senate
731 Hart Senate Office Building
Washington, D.C. 20510-1501

Dear Senator Harkin:

Thank you for your letter of October 14, 2005, requesting that the Department of Agriculture (USDA) help producers address the presence of aflatoxin in their grain. You also seek assurance that the Risk Management Agency (RMA) is working with the respective departments within USDA to address aflatoxin issues.

RMA is working with other applicable USDA and outside agencies to ensure that producers receive the proper coverage under the crop insurance policy. Below outlines the current situation and the actions being taken by RMA and the insurance providers.

Aflatoxin losses are an insurable cause of loss under the Federal crop insurance program if representative samples of grain are taken before the grain is placed in commercial or on-farm storage. Producers must notify their crop insurance agents before harvest or before placing harvested grain in storage if they suspect the grain may contain aflatoxin. If a producer wishes to harvest the crop before the insurance provider can test the crop for aflatoxin, the producer should arrange with the insurance provider to leave representative areas of unharvested crop.

After the grain has been delivered, but before it is put in storage, the commercial storage facility can also obtain samples from the delivered grain. In this case, the commercial storage facility will provide samples to the insurance provider, who will send them to an "approved testing facility" for aflatoxin testing. "Approved testing facilities" are those that (1) perform quantitative tests, as certified by the Grain Inspection, Packers, and Stockyards Administration, and itemizing the results in parts per million and parts per billion (ppb); (2) are a recognized commercial, government, or university testing lab that uses industry recognized sample sizes, equipment, and procedures for testing aflatoxin; and (3) must be a disinterested testing facility unless RMA issues a written authorization to waive this requirement.

The Food and Drug Administration (FDA) has established action levels when aflatoxin is present in food or feed. The FDA has no published advisory levels or use restrictions for crops with 0 to 20 ppb of aflatoxin. Therefore, the crop insurance policy does not provide quality adjustments for levels below 21 ppb. If the crop tests from 21 ppb up to the State maximum, the crop

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qualifies for quality adjustment based on the price received by the producer. When quality adjustment is permitted by the policy, the production to count is adjusted based on the level of contamination. The FDA requires destruction of crops with more than 300 ppb (500 ppb in Texas) and, under the crop insurance policy, crops with these levels of aflatoxin are of zero value and the producer is entitled to indemnification of the full loss after the producer destroys the affected production.

In some parts of the country, growers are experiencing delays in the settlement of corn claims because grain buyers are neither buying the grain nor providing a reasonable value for the aflatoxin-infected grain. Approved procedures allow insurance providers to work with insured producers to establish reasonable bids for the infected grain so they may proceed with claim settlement. To address agency requirements and other related issues, RMA staff participated in a meeting on October 5, 2005, in Muscatine, Iowa, with grain producers, company representatives, elevator operators, and crop insurance agents.

As a result of this meeting, RMA has developed the enclosed fact sheet to provide accurate information regarding the adjustment of losses associated with aflatoxin infestation. RMA plans to distribute this fact sheet broadly among the agricultural communities in the affected States. RMA will continue to work with USDA agencies and others to address issues related to this matter.

In general, contaminated commodities are ineligible for marketing assistance loans and loan deficiency payments (LDPs). However, exceptions have been made for aflatoxin and vomitoxin. Commodities containing high levels of aflatoxin and vomitoxin are eligible for loans, at a discounted rate, or for the full LDP if the commodity is merchantable.

If an area is determined to have aflatoxin corn, the Farm Service Agency (FSA) State Committee requires producers who request loans to have the corn tested for aflatoxin at the producer's expense. Aflatoxin testing is not required for LDPs.

If the aflatoxin is more than 20 ppb:

- corn is eligible for loans at 10 percent of the county loan rate if the corn is merchantable.
- corn is eligible for 100 percent of the LDP if the corn is merchantable.

Producers can get the corn appraised in the field by an adjuster, and FSA will accept that quantity for LDP only after it is harvested. Crops left standing in the field are not eligible for LDP's.

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Again, thank you for writing on this important issue. Please be assured that USDA is making every effort to assist producers experiencing aflatoxin-infected grain.

Sincerely,



for J.B. Penn
Under Secretary
Farm and Foreign Agricultural Services

Enclosure



United States Department of Agriculture
Risk Management Agency

Risk Management Agency Fact Sheet

October 2005

Loss Adjustment Procedures for Aflatoxin

Moisture stress, insect damage, and high-temperature stress are major determining factors in mold infestation and aflatoxin contamination in certain unharvested crops. Aflatoxin contamination can be harmful to humans and animals at certain levels. Accordingly, the Food and Drug Administration (FDA) has established action levels for aflatoxin present in food or feed. Post-harvest aflatoxin contamination can increase during storage and if crop drying is delayed. Insect or rodent infestations may also facilitate mold invasion of some stored commodities. The commodities with the highest risk of aflatoxin contamination are corn, peanuts, and cottonseed.

Producers should notify their approved insurance providers (AIPs) if they suspect aflatoxin damage. Aflatoxin contamination is a covered cause of loss for insured producers as long as representative samples of grain are taken before the grain is moved into commercial or onfarm storage. Crop insurance coverage ends at harvest, and since there is the possibility of post-harvest contamination, AIPs must obtain samples prior to storage.

The AIP-assigned loss adjuster will obtain a representative crop sample(s) and submit it to an approved testing facility. The loss adjuster may obtain the sample(s) from an unharvested field, from AIP-authorized representative strips left in an otherwise harvested field, or from the delivery point. For crop insurance purposes, only "approved testing facilities" may provide aflatoxin testing. To be an "approved testing facility" for crop insurance purposes, all of the following criteria must be met:

1. The facility must be able to perform quantitative tests on grain, itemizing results in parts per million (ppm) and parts per billion (ppb). Test kits used must be certified by the Grain Inspection, Packers and Stockyards

Administration (GIPSA).

2. The facility must be a recognized commercial, governmental, or university testing lab that uses industry-recognized sample sizes, equipment, and procedures for testing aflatoxin.
3. The facility must be a disinterested testing facility unless RMA issues a written authorization to waive this requirement.

The discovery of aflatoxin levels can result in producers experiencing no discounts, mild discounts, severe discounts, or a destruction order. The FDA has no published advisory levels or use restrictions for crops with 0 to 20 ppb of aflatoxin. Therefore, crop insurance policy provisions do not provide quality adjustments for levels below 21 ppb. The FDA requires destruction of crops with more than 300 ppb (500 ppb in Texas). Crop insurance policy provisions consider these crops zero value and, upon destruction, pay a full loss.

If the crop tests 21 ppb up to the State maximum, the crop qualifies for quality adjustment using the actual reduction in value (RIV). This works as follows. Assume 1,000 bushels of corn with 45 ppb aflatoxin, the local market discount (RIV) for 45 ppb is \$1.50 per bushel, and the local market (spot cash) price is \$1.80 per bushel. $\$1.50 \text{ (RIV)} \div \$1.80 = 0.833$ which is the discount factor (DF). The quality adjustment factor (QAF) is $1 - \text{the DF}$, or 0.167. For quality adjustment, the production to count is calculated as follows: $1,000 \text{ bushels} \times 0.167 \text{ QAF} = 167 \text{ bushels production to count}$.

In some parts of the country, producers may experience claim settlement delays because buyers may neither buy the aflatoxin-infected crop nor supply a reasonable value for it. Producers may choose to take their crop to a different buying point. As an alternative, crop insurance procedures allow

AIPs to work with producers to establish reasonable bids for the infected crop so they may proceed with claim settlement. The AIP cannot calculate production to count without determining the RIV.

Producers concerned about placing aflatoxin-infected grain in storage or efforts to reduce the spread of aflatoxin within grain storage facilities should contact local agricultural experts. Insureds should contact their crop insurance agent or AIPs if they have questions about their crop insurance coverage or responsibilities.

For additional information, please contact the Risk Management Agency at:

The United States Department of Agriculture
Risk Management Agency
1400 Independence Ave., SW, Stop 0801
Washington, D.C. 20250
TEL: (202) 690-2803
FAX: (202) 690-2818

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